HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK
## Charlottetown CA

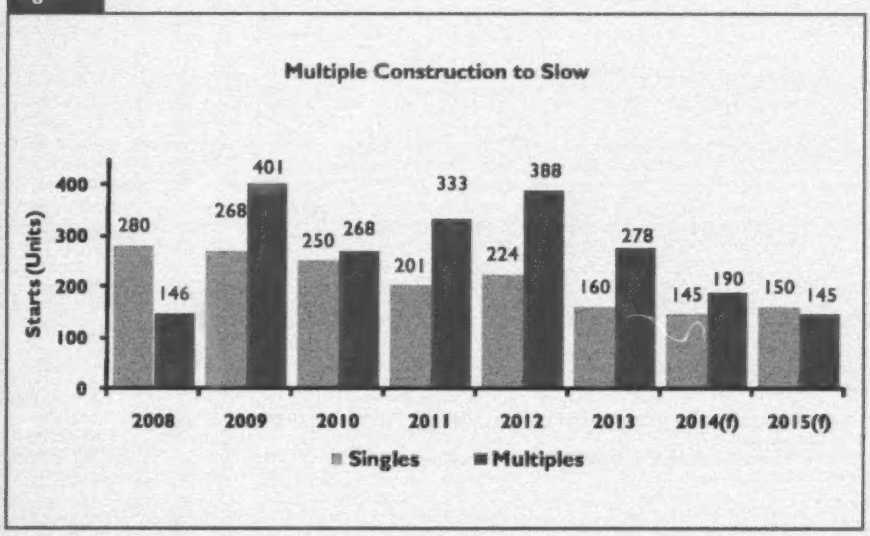
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

## Highlights

- Apartment starts to decline due to rising vacancy rate
- Single-detached starts will trend down over the forecast period
- MLS® sales to decline as overall housing demand moderates
- Average resale price growth to slow

Figure 1




Source and Forecast: CMHC

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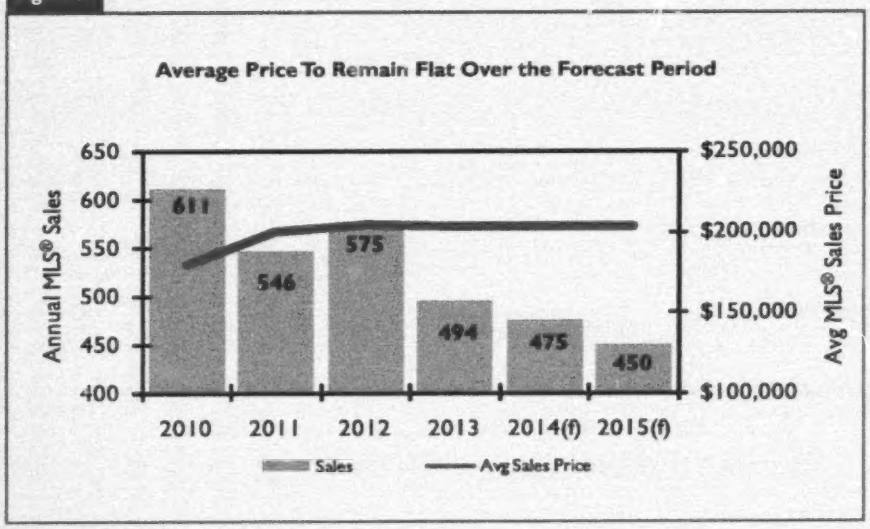
Figure 2




Source: CREA; Forecast: CMHC
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## New Home Market: Apartment Construction to Decline

Total new home construction in the Charlottetown CA will decline by 24 per cent this year, after falling nearly 30 per cent in 2013. The bulk of the decline will be recorded in rental apartment starts. Since 2009, the level of rental apartment has been well above the ten-year average, with more than 1,200 units built. The elevated level of rental starts was supported by high levels of in-migration, partially due to the Provincial Nominee program, and low borrowing costs. However, supply of units has outpaced demand, exerting a steady rise in the vacancy rate. The vacancy rate of 7.9 per cent recorded in Fall 2013 will limit new rental development over the next two years. Multiple-unit starts will recede to 190 units in 2014, before declining further to 155 units in 2015.

Single-detached home construction will continue to decline over the forecast period, continuing a trend that started in 2004. The rapid growth of an absorbed single-detached home curtailed demand and pushed prospective homebuyers to consider lower cost alternatives such as the resale and condominium market. In addition, changes to the Provincial Nominee Program have resulted in a lower number of candidates so the resulting slowdown in-migration to the province is impacting demand for all forms of housing. Overall single-detached starts are expected to decline to 145 in 2014 and 150 starts in 2015.

While single-detached starts in the Charlottetown area are expected to decline, the homes that are built will continue to be larger and more elaborate. The spread between the New Home Price Index (NHPI) and the average new home price provides some insight into this trend. The NHPI is Statistics Canada's benchmark for measuring the percentage increase in land, labour and material on a monthly basis. Over the past five years, the average annual gain in the NHPI has been 0.54 per cent. During the same period the actual average new home price grew by 7.5 per cent annually. This spread, of almost seven per cent, indicates that the rise in new home prices is being impacted by consumer preferences and not increases in land, labour and material costs. As the trend towards larger, more elaborate homes continues, the average new home price will continue to increase above the rate of inflation over the forecast period.

## Resale Market: MLS® Sales to Decline

MLS® sales in Charlottetown averaged 572 units, over the past decade. During this period, the annual totals ranged from a low of 494 in 2013 to a high of 650 sales in 2007. Expect MLS® sales to decline over the forecast period. The sharp reduction for housing demand stems from out-migration and declining international migration. These two factors will limit household formation over the forecast period. The overall impact will be a reduction in demand for resale homes compared to previous years. MLS® sales are expected to decline to 475 units in 2014 and 450 units in 2015.

The reduced demand entails no price growth for existing homes over the forecast period. This is a departure from the trend observed during the previous decade, when price growth average over five per cent on an annual basis. New listings are expected to remain elevated, providing ample choice for potential home buyers. As a result, expect an increase in the days on market for listed homes which will apply downward pressure on price. The average MLS® sale price is expected to remain essentially unchanged at $203,000 in 2014 and $202,500 in 2015.

## Vacancy Rates on the Rise

The vacancy rate in the Charlottetown area increased for the fourth consecutive year, as the supply of new units outpaced demand. Since the beginning of 2009, the Charlottetown area has added more than 1,200 new rental apartment units to the local apartment universe. This level of construction is well above the ten-year average of 130 units per year and is equal to the total level of apartment construction during the previous 18 years combined. This level of construction paired with a significant decline in demand, pushed up the vacancy rate for apartment structures containing three or more units in the Charlottetown CA to 7.9 per cent.

The vacancy rate will rise in 2014, as an additional 179 rental units are currently under construction. As these units are brought to market throughout 2014, supply will continue to outpace demand. However, rental construction slowed significantly in the latter half of 2013 and is expected to remain slow in both 2014 and 2015. As such, it is expected that the rental market will post a lower vacancy rate in Fall 2015. Expect the vacancy rate to reach 9.0 per cent in 2014 before declining to 8.0 per cent in 2015.

## Housing Demand to Moderate

Employment, migration and interest rates are three main factors influencing housing demand. Over the forecast these factors are expected to record little change.

The unemployment rate in Charlottetown remained near 8.5 per cent in 2013, and little change is expected throughout 2014. In 2013, Charlottetown recorded strong growth in both the labour force and total employment. As the percentage increase in both of these variables was very similar, there was essentially no change to the unemployment rate. It is expected that the unemployment rate will remain between 8.5 and 9.0 per cent during the forecast period.

Due to the relatively strong job market, the capital region remains attractive for job seekers compared to other parts of the province. This has been one of the main reasons for the continued trend of urbanization, as Islanders continue to move to the capital region from more rural parts of the province.

Migration trends from 2007 to 2012 were very favorable for the housing market in the Charlottetown area. During this period, the area recorded a substantial increase in international immigration combined with a slowdown in-migration to Alberta. International immigration, attributed to the Provincial Nominee Program, brought nearly 11,000 new residents to the Capital region between 2007 and 2012. The large influx of people stimulated housing demand. However, this program came to an end in 2012, and international migration declined significantly in 2013 with further declines expected for 2014. In addition, out-migration to Alberta resumed in 2012, after a three year hiatus. In 2013, approximately 1,000 residents relocated to Alberta. As such, migration will not provide significant housing demand over the forecast period.

## Mortgage Rates to see Gradual and Modest Increases by the end of 2015, but will Remain Low by Historical Standards

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.5 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

## Trends at a Glance

| Key Factors and their Effects on Housing Starts | |
|---|---|
| Mortgage Rates | Short term mortgage rates are expected to remain at historical low levels which will continue to support housing demand. |
| Employment | An increase in employment levels was recorded in 2013, with the majority of the new jobs in the Charlottetown area. Employment in the area continues to remain positive and support demand for all types of housing. |
| Income | The increase in the average weekly earnings in Prince Edward Island for 2013 was near the rate of inflation. The net result was no real wage growth, which will have little effect on housing demand. |
| Net Migration | Out-migration throughout Prince Edward Island trended upward in 2013, exerting negative pressure on housing demand. |
| Natural Population Increase | Overall population growth in Prince Edward Island is minimal. The aging population will impact the tenure of housing demand moving forward. |
| Resale Market | Resale market conditions in Charlottetown are expected to remain in the buyers category due to slowing sales and minimal increases in the average sale price. In addition, new listings and the average days on market continue to rise. |
| Other | Reduced public-sector capital spending combined with muted, large-scale private-sector investment will limit economic growth in 2014 and 2015. |

## Forecast Risks

This outlook is subject to some risk including:

- Increased out-migration throughout the province and significant declines in international immigration will limit demand over the forecast period.
- A stronger than expected U.S. economic recovery or stronger growth in emerging countries could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing market.
- Recent levels of apartment starts are expected to impact the vacancy rate further in 2014 and 2015. If the vacancy rate increases faster than expected, construction projects could be delayed.
- Elevated levels of household debt and house prices in some urban centres have made the country's economy more vulnerable to some economic shocks. If interest rates or unemployment were to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.

| Forecast Summary<br>Charlottetown CA<br>Spring 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014f | % chg | 2015f | % chg |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 201 | 224 | 160 | 145 | -9.4 | 150 | 3.4 |
| Multiples | 333 | 388 | 278 | 190 | -31.7 | 155 | -18.4 |
| Starts - Total | 534 | 612 | 438 | 335 | -23.5 | 305 | -9.0 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 239,840 | 272,844 | 286,344 | 288,000 | 0.6 | 290,000 | 0.7 |
| **Median Price ($):** | | | | | | | |
| Single-Detached | 240,000 | 250,000 | 269,450 | 272,000 | 0.9 | 277,400 | 2.0 |
| New Housing Price Index (% chg.) | 1.8 | 0.2 | 0.5 | 0.5 | - | 0.5 | - |
| **Resale Market** | | | | | | | |
| MLS® Sales | 611 | 546 | 575 | 475 | -17.4 | 450 | -5.3 |
| MLS® New Listings | 786 | 875 | 924 | 900 | -2.6 | 875 | -2.8 |
| MLS® Average Price ($) | 179,813 | 199,580 | 204,319 | 203,000 | -0.6 | 202,500 | -0.2 |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 3.3 | 5.7 | 7.9 | 9.0 | 1.1 | 8.0 | -1.0 |
| Two-bedroom Average Rent (October) ($) | 761 | 803 | 804 | 820 | - | 850 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 3.52 | 3.17 | 3.08 | 3.00 - 3.50 | - | 3.20 - 4.25 | - |
| Mortgage Rate (5 year) (%) | 5.37 | 5.27 | 5.24 | 5.00 - 5.50 | - | 5.25 - 6.00 | - |
| Annual Employment Level | 34,625 | 35,250 | 37,025 | 37,700 | 1.8 | 38,000 | 0.8 |
| Employment Growth (%) | 2.1 | 1.8 | 5.0 | 1.9 | - | 0.9 | - |
| Unemployment Rate (%) | 8.3 | 8.3 | 8.7 | 8.5 | - | 8.7 | - |
| Net Migration (P.E.I.) | 1,503 | 228 | 104 | 100 | -3.8 | 500 | ** |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

** Percent change > 200%

# DEFINITIONS AND METHODOLOGY

## New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

**Single-Detached Start:**
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

**Semi-Detached Start:**
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

**Row (or Townhouse) Start:**
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

**Apartment and other Starts:**
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

**Average and Median Single Detached Home Prices:**
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

**New Home Price Indexes:**
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

## Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

**MLS® (Centris® in the province of Quebec) Sales:**
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

**MLS® (Centris® in the province of Quebec) Average Price:**
Refers to the average annual price of residential transactions through the Multiple Listings Services.

## Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

## Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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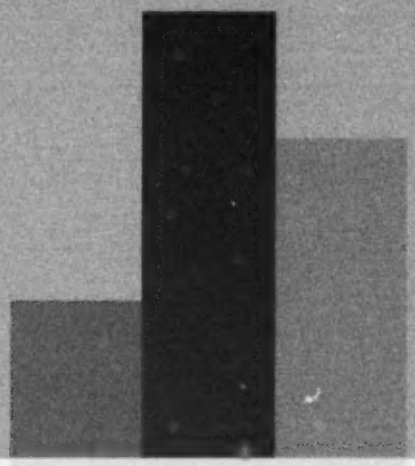

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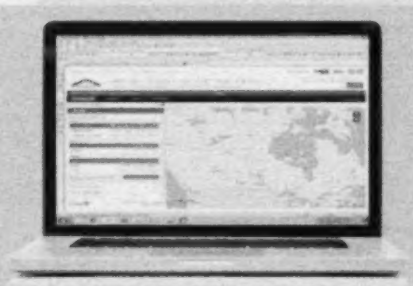

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